

U.S. AGRICULTURAL AGENDA AT THE WTO

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Trade Subcommittee of the Senate Committee on Finance
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Chairman Grassley, Senator Moynihan, Members of the Subcommittee:

Thank you very much for this opportunity to testify before the Subcommittee on our agenda for agriculture at the World Trade Organization over the coming year. I look forward to working closely with you as we move ahead through the launch of agriculture negotiations in Geneva, and completion of WTO accession for China and other prospective WTO members.

INTRODUCTION

To begin with, Mr. Chairman, agriculture has been at the center of American trade policy under President Clinton.

American farmers and ranchers are the most competitive and technically advanced in the world. We produce far more than we can ever eat; and we therefore must have the ability to export to the 96% of humanity that lives beyond our borders if American farm families are to prosper. American producers lead the world in commodities products ranging from grains to oilseeds, meat, dairy, fruits and vegetables, and forest products. Our farmers and ranchers therefore depend on open markets worldwide. This is clear in the record, with one in three American farm acres producing for foreign markets, with U.S. export sales close to \$50 billion last year, despite a drop from the record levels of 1996 and 1997 due to the effects of the Asian financial crisis and record harvests in several countries.

Open world agricultural markets are in the long-term interest of our trading partners as well, as experience shows us that an open, fair trading system for agriculture is among the world's strongest defenses against hunger. Countries which are open to agricultural trade diversify their sources of supply -- ensuring that consumers will have reliable access to food at market prices, and helping to guarantee that natural disasters or other interruptions of supply from any one source of food will not mean famine.

AGRICULTURAL TRADE POLICY GOALS

When the Administration took office, however, agriculture was a sector in which trade was more restricted and distorted than almost any other.

Non-tariff measures such as quotas, import bans and uncapped variable levies effectively

insulated inefficient producers from world markets and could be used to stop all imports. Our trading partners had no constraints on their ability to use export subsidies to dump surplus production in world markets. American exporters had no effective recourse to challenge import restrictions that were disguised protectionist barriers. No limits existed on production subsidies in agriculture. And we had no effective forum in which to resolve our disputes on these issues.

Thus, throughout the Administration, we have pursued a strategic program, with our major trading partners, in our regional trade initiatives, and in the trading system, to reform and open agricultural trade. We have given additional resources to agricultural issues, including the first ever appointment of an Ambassador-level Special Trade Negotiator for Agriculture. And we have pursued a systematic effort to:

- reduce tariffs and other barriers to trade;
- ensure that sanitary and phytosanitary standards are based on science;
- promote fair trade by reducing foreign export subsidies and trade-distorting domestic supports;
- ensure greater transparency and fairness in state trading; and
- help guarantee that farmers and ranchers can use new technologies such as biotechnology, when evaluated through a fair, transparent and science-based approach to regulation, without fear of trade discrimination.

At the same time, our colleagues at the FDA and the Department of Agriculture are intensifying food inspection at the border, to not only maintain but improve our food safety standards. This is especially important as imports have risen in recent years, to ensure that the American public will have the world's safest food supply as we get the benefits of open trade.

ADMINISTRATION AGRICULTURAL TRADE RECORD

The results of this work are substantial.

Opening World Markets

With the passage of the North American Free Trade Agreement in 1993, we won preferential access to our immediate neighbors. As a result, our agricultural exports to Mexico and Canada have grown by nearly \$4 billion since 1993. Together, these two countries -- with a total population of 120 million -- now buy over a quarter of our agricultural exports and provide American farmers with at least a partial shield against overseas economic crisis.

Bilateral agreements worldwide have also opened up new opportunities in a very large range of commodities. Examples include:

- Beef in Korea;
- Apples and cherries in China;

- Tomatoes and apples in Japan;
- Almonds in Israel;
- Citrus and other fruits in Brazil, Chile, Mexico and other countries;
- A veterinary equivalence agreement with the European Union addressing sanitary issues blocking US live animal and animal products.

Our December 1998 agricultural agreement with Canada shows how much practical, real-world value these initiatives can yield for our farm communities. This agreement addressed a range of market access barriers, discriminatory regulatory policies and sanitary and phytosanitary issues; and since its conclusion, our agricultural trade relationship has fundamentally changed.

- Feeder cattle are moving into Canada in record numbers. Before the agreement, Canada took virtually no American feeder cattle. So far this marketing year, over 170,000 head of feeder cattle, including 114,000 from Montana alone, were shipped to Canada.
- We have also achieved real market access for hogs. Canada has eliminated burdensome regulations and now allows hogs from states free of pseudorabies to move easily into Canada for slaughter.
- Wheat sales have dramatically increased, with shipments from Montana, North Dakota and Minnesota farmers rising from virtually nothing in the 1997-1998 marketing year, to 303,000 tons in 1998-1999.
- Under the In-Transit Program for Grains, the U.S. shipped over 720,000 tons of North Dakota, Montana, and Minnesota wheat and barley on the Canadian rail system since January 1, 1999.
- We are making progress on a number of regulatory initiatives as well, dealing with Canadian phytosanitary requirements for wheat, including changes to regulations on cereal screenings, karnal bunt, the elimination of Canada's barley quota, extension to more states of the ability to ship wheat more on the Canadian rail system, and streamlining complex requirements to export U.S. wheat through Vancouver.

Uruguay Round

All of these initiatives, furthermore, help us to set precedents and build the international consensus necessary for fundamental reform of agricultural trade through the trading system.

This is now underway. With the completion of Uruguay Round in 1995, after forty-seven years of developing the trade system, we began to bring agricultural trade under fair and internationally accepted rules, in each area crucial to American agriculture:

- First, through the Agreement on Agriculture, the Uruguay Round abolished quotas,

ensuring that countries use only tariffs to restrict imports; and going on to reduce and bind these tariffs. It subjected export subsidies and trade-distorting domestic support measures to specific limits, and reduced them as well.

- Second, through the Agreement on Sanitary and Phytosanitary Measures, the 135 members of the WTO agreed to use science-based sanitary and phytosanitary standards to protect human, animal and plant life and health rather than to bar imports.
- Third, the Uruguay Round created an effective, impartial dispute settlement mechanism to address trade disputes.
- And fourth, all participants in the WTO agreed to a “built-in agenda” mandating further negotiations in agriculture, as well as services, beginning this year.

Enforcement

With the Uruguay Round complete, we set up a special monitoring unit to ensure full implementation of these commitments, and we have spent considerable time over the past five years monitoring and enforcing compliance. When we have encountered reluctance to comply with commitments, we have not hesitated to assert our rights through dispute settlement.

In most cases, our trading partners have met their obligations. However, for those cases in which they have not, the U.S. has used the strong WTO dispute settlement mechanism to ensure that WTO members meet their commitments or suffer a penalty for failure. To be specific, we have used the dispute settlement mechanism in the past four years to enforce the Agriculture and SPS Agreements in thirteen separate cases from fruit sales to Japan, to pork in the Philippines, dairy in Canada, and of course the still unresolved banana and beef cases with the European Union.

The banana and beef cases are important not only for their concrete economic importance to American agriculture, but because they concern fundamentally important principles and precedents. Most notably, these are the only cases in which a WTO member has not complied with its obligations after an adverse panel ruling -- in agriculture or anywhere else in the system. We expect full implementation of each decision and are taking measures to ensure it, beginning with WTO-authorized retaliation against the EU in the banana and beef cases.

NEXT STEPS

The Uruguay Round also included a commitment by all members to begin a second set of negotiations on agriculture and services in the year 2000. We have seen fulfillment of this commitment as fundamental to the credibility of the WTO as a whole, in addition to the essential part these negotiations will play in the reform and opening of world agricultural trade.

Despite the progress made in the Uruguay Round and elsewhere, agricultural trade remains substantially restricted and distorted. Tariffs average 50% worldwide for agricultural products. Tariff-rate quotas have created access for imports, but often subject to restrictive conditions. The European Union continues to use export subsidies intensively, displacing more competitive producers from cash markets, harming the interests of American farmers and ranchers and imposing a special burden on agricultural producers in the poorest countries. Trade distorting subsidies continue to encourage over-production in some key countries, lowering prices for all other producers. State trading enterprises control a large share of world trade in certain commodities. And the developing application of biotechnology techniques to agriculture raises new challenges for trade policy.

BUILT-IN AGENDA

Over the course of 1999, we presented formal proposals in Geneva on the range of issues raised by these policies, reflecting the advice and goals we received in a range of consultations with Congress, agricultural producer groups throughout the nation, and other interested parties. The WTO did not, of course, launch a Round last year. But we are very pleased by the decision its General Council took last month to formally open the agriculture and services negotiations to which WTO members committed themselves in the Uruguay Round. This is essential not only to the interests of American agriculture, but to the credibility of the WTO itself.

The General Council's decision calls for the first meeting of the agricultural negotiations to be held on March 23rd. At this meeting, in addition to addressing procedural issues, including discussions about chair, time-frames and the structure of proposals, we will continue our work with other countries to find common ground on reform objectives. While no deadline for the conclusion of negotiations has yet been established, the expiration of the peace clause at the end of 2003 should encourage countries to proceed expeditiously.

While the work has just begun, our fundamental principles for agricultural trade reform in these talks are clear:

- Eliminate Agricultural Export Subsidies – A principal goal of the U.S. will be to completely eliminate, and prohibit for the future, all agricultural export subsidies.
- Lower tariff rates and bind them – this should include reduction and elimination of tariffs, elimination of tariff disparities, and simplification of tariff policies, for example in cases where WTO members use “compound” tariffs that include both ad valorem and cent-per-kilogram tariffs.
- Substantially reduce trade-distorting domestic supports and strengthen rules that ensure all production-related support is subject to discipline, while preserving criteria-based “green box” policies. In addition, all trade-distorting supports should be more tightly disciplined.
- Improve access for U.S. exports under tariff-rate-quotas – by increasing quantities eligible

for low-duty treatment, reducing high out-of-quota duties, and improving disciplines on administration of TRQs to ensure that they offer real market access.

- Strengthen disciplines on the operation of state trading enterprises – While state trading enterprises are subject to WTO limits on subsidized exports, there are a number of concerns about their operations, and in particular those of monopoly exporters. These include the possibility of disguised circumvention of export subsidy commitments, and anti-competitive practices such as predatory pricing.
- Address disciplines to ensure trade in agricultural biotechnology products is based on transparent, predictable and timely processes. While WTO rules cover trade measures affecting biotechnology products, we are concerned about the utter collapse of the European Union's approval process for biotechnology. We continue to work with our industry, Congress and other interested groups in developing the best approach for dealing with this subject bilaterally and in WTO negotiations.

In preparation for more detailed proposals, we will extensively consult with stakeholders and Congress, and work in tandem with the drafting of a new Farm Bill. We are now continuing our work with American producer groups and other interested parties to identify priorities and assessing different approaches for cutting tariffs, expanding access for products subject to TRQs, reducing trade-distorting domestic support, eliminating export subsidies, and disciplining state trading enterprises. We also are reviewing approaches for dealing with biotechnology. And we are publishing a *Federal Register* notice this month soliciting formal comments from the American public at large.

At the same time, we continue our support for the launch of a more broadly-based new Round. Beyond agriculture and services, we have pressing needs to address market access concerns in industrial products, electronic commerce, trade facilitation, and other topics. To build international consensus for such a Round will not be a simple task. However, the outlines can be drawn, if WTO members prove willing to rethink their negotiating positions, focus more fully on the shared benefits of the trading system in creating new sources of growth and opportunity and the shared responsibilities of reaching these goals, and find the balance that allows us to move ahead. As the President has said, we will keep working toward consensus; we are willing to be flexible, and expect our trading partners to do the same.

REGIONAL INITIATIVES

As we prepare for the negotiations, whether focused on agriculture and services or in the broader context of a new Round, we will proceed with initiatives which offer concrete benefits to producers and set precedents for later multilateral achievement.

In our regional trade initiatives, for example, we have already achieved consensus on issues of great importance to agricultural producers. The Free Trade Area of the Americas talks, which began the drafting of a formal agreement last month, have already achieved a consensus

throughout the hemisphere on elimination of export subsidies. Likewise, the Asia-Pacific Economic Cooperation forum, linking 23 Pacific nations, has called for elimination of tariffs on forest products and for elimination of export subsidies.

CHINA WTO ACCESSION

Of fundamental importance in all future WTO work is the accession of new members. Thirty economies have applied to join; and each offers us the potential to set precedents and develop support for our multilateral goals.

China's WTO accession is a case in point. Overall, it represents a comprehensive and one-way series of trade commitments. It covers agriculture, manufacturing, and services industries such as telecommunications, finance, the professions and others. It includes a 12-year product-specific safeguard in the event of import surges into our markets, an agreement to continue using "non-market economy" dumping methodologies for fifteen years, addresses Chinese practices intended to draw jobs and technology to China, and much more.

In every case, the commitments are specific and enforceable; will be implemented rapidly; and hold China to the same standards we expect of WTO members. With respect to agriculture in particular, we will open China's market for all commodities of significant export interest to us, and address a range of broader policy issues of concern to American producers. To review the results briefly:

- China will cut agricultural tariffs by more than half on U.S. priority products. In the commodities of top concern to the United States – everything from beef and pork to citrus, processed foods, wine and dairy – tariffs will fall from an average of 31% to 14%.
- China will end its system of discriminatory licensing and import bans for bulk commodities, and will create market access opportunities by establishing a WTO-consistent Tariff-Rate Quota (TRQ) system. China will establish significant and growing TRQs for state-traded commodities such as wheat, corn, cotton, rice and soybean oil. China has also committed to low, within-quota tariffs of 1-3%, which will help American farmers take full advantage of the TRQs. And China committed to allow a share of the TRQs for each commodity to be imported by entities other than state-trading entities, and agreed to specific rules for the administration of these TRQs. The introduction of private trade – combined with increased transparency in the process – will ensure increased opportunities for American agricultural exports.
- China will grant expanded trading rights – Currently, only companies that receive specific authorization from the Chinese government are allowed to import into China. Under the bilateral agreement on WTO accession, China has committed to allow any entity to import most products into any part of the country within three years of accession. A select list of products will be partially exempt from this rule and some trade will be channeled through China's state-trading enterprises (including wheat, corn, rice and cotton; state trading will

be phased out for soybean oil.) However, specific commitments to end monopoly import status have also been established. Additionally, China has committed to liberalize distribution services for all agricultural products, except tobacco, allowing U.S. companies to distribute and market their products in China.

- China will eliminate export subsidies. China has committed not to use export subsidies for agricultural products when it joins the WTO. This commitment will level the playing field in third-country markets for U.S. exports of corn, rice and cotton, which in the past have been displaced by unfairly traded Chinese exports.
- China will cap and then reduce domestic support. China will first cap and then reduce trade-distorting domestic subsidies. The specific levels will be determined through multilateral negotiations in Geneva on the Protocol and Working Party report. China also committed to provide greater transparency to make its domestic support measures more predictable.
- China will eliminate scientifically unjustified restrictions on U.S. agricultural products. China has committed to fully abide by the terms of the WTO Agreement on Sanitary and Phytosanitary Measures, which requires that all animal, plant and human health import requirements be based on sound science – not on political agendas or protectionist concerns.
- Bilateral Agricultural Cooperation Agreement – Additionally, last year China and the United States agreed bilaterally on the terms for removal of long-standing and scientifically unjustified restrictions on imports of U.S. wheat, citrus and meat. Under this agreement, Chinese pre-program initiation inspection teams have visited citrus orchards in Arizona, Florida, Texas and California; and most recently, for the first time in the modern era, China has made a significant purchase of wheat from the Pacific Northwest.
- Strong Provisions Against Unfair Trade and Import Surges. The Agreement explicitly permits the U.S. to continue using “non-market economy” anti-dumping methodology for 15 years after China’s accession to the WTO. China has also committed to a strong product-specific safeguard that allows the United States for 12 years after accession to restrain increasing imports from China that cause or threaten market disruption. After that, current U.S. safeguard provisions – Section 201 – will remain available to address increasing imports.

Thus our bilateral agreement addresses the full web of trade barriers in the China market: barriers at the border, unfair restrictions on marketing within China, and unscientific inspection standards. As it goes into effect, a fifth of the world population – now largely blocked from buying our agricultural goods – will become a new market for farmers, ranchers and food companies all over the United States; and we will develop a series of high-quality precedents in the world’s largest nation for future multilateral talks.

PERMANENT NORMAL TRADE RELATIONS

As China enters the WTO, we have very few obligations. We make no changes whatsoever in our market access policies; in a national security emergency, in fact, we can withdraw market access China now has. We change none of our laws controlling the export of sensitive technology. And we amend none of our fair trade laws.

But we have one obligation: we must grant China permanent NTR or risk losing the full benefits of the agreement we negotiated, including broad market access, special import protections, and rights to enforce China's commitments through WTO dispute settlement.

Permanent NTR, in terms of our policy toward China, is no real change. NTR is simply the tariff status we have given China since the Carter Administration; and which every Administration and every Congress over the intervening 20 years has reviewed and found, even at the periods of greatest strain in our relationship, to be in our fundamental national interest.

Thus permanent NTR represents little real change in practice. But the legislative grant of permanent NTR is critical. All WTO members, including ourselves, pledge to give one another permanent NTR to enjoy the benefits available in one another's markets. If Congress were to refuse to grant permanent NTR, our Asian, Latin American, Canadian and European competitors will reap these benefits but American farmers, factory workers and service providers might well be left behind.

CONCLUSION

In conclusion, Mr. Chairman and Members of the Subcommittee, we have made very substantial progress towards an open and fair world market for America's farm and ranch families in the past seven years.

And as we look to the future, we have an ambitious agenda that will open the world's largest nation to our exports, make further progress on our key trade relationships, and address the major issues now before us through broad and ambitious negotiations. I look forward to working closely with each of you as this work proceeds.

Thank you very much.